

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SS-15 NSC-05 NSCE-00 SSO-00

EB-07 SP-02 L-03 TRSE-00 OMB-01 INR-07 CIAE-00 PRS-01

INRE-00 /054 W

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O P 151704Z JUL 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 1571

INFO ALL EC CAPITALS 2338

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E.O. 11652: N/A

TAGS: EFIN, ETRD, IT, EEC

SUBJECT: EC COMMISSION AGREES IN PRINCIPLE TO EXTEND ITALIAN
PRIOR DEPOSIT SCHEME

REF: (A) ROME 11379, (B) EC BRUSSELS 6906 (NOTAL), (C) EC BRUSSELS
4530

1. THE EC COMMISSION ON JULY 14 AGREED IN PRINCIPLE TO AN ITALIAN
REQUEST TO EXTEND ITS PRIOR DEPOSIT SCHEME FOR THREE MONTHS UNTIL
NOVEMBER 6. COMMISSION OFFICIALS TELL US THAT THE COMMISSION IS
NOW INFORMING MEMBER STATES OF THIS DECISION AND CONSULTING
INFORMALLY WITH THE EC MONETARY COMMITTEE. MEMBER STATES SEEM
PREPARED TO GO ALONG WITH THE EXTENSION. ITALIAN PRIME MINISTER
MORO RAISED THIS MATTER AT THE EUROPEAN COUNCIL AT WHICH TIME
THERE WAS TACIT AGREEMENT TO THE ITALIAN REQUEST. THE
COMMISSION WILL ALSO DISCUSS THE EXTENSION WITH THE EC COMMITTEE
OF PERMANENT REPRESENTATIVES ON JULY 17. COMMISSION OFFICIALS
WERE CONFIDENT THAT THE COMMISSION WILL FORMALLY AGREE TO THE
EXTENSION AT ITS MEETING ON JULY 21.

2. COMMISSION OFFICIALS SAY THREE CONDITIONS HAVE BEEN
PLACED ON THE EXTENSION. FIRST, THE GOI SHOULD NOT
CHANGE THE CURRENT PRIOR DEPOSIT SCHEME; NO MEASURES WILL
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BE INTRODUCED TO DISCRIMINATE AGAINST EITHER TYPES OR

SOURCES OF IMPORT. SECONDLY, THE GOI WILL CONSULT REGULARLY WITH THE COMMISSION ON ECONOMIC POLICY MEASURES; THE COMMISSION EXPECTS TO HAVE A CLOSE CONSULTATIVE ROLE IN THE PREPARATION OF AN ECONOMIC STABILIZATION PROGRAM FOR ITALY. THIRDLY, THE COMMISSION MAY SEEK TO REDUCE THE PERIOD OF THE EXTENSION, SHOULD CONDITIONS WARRANT IT.

3. TOP COMMISSION FINANCIAL OFFICIALS BELIEVE THE EXTENSION IS FULLY JUSTIFIED. THEY NOTE THAT THE NEW GOVERNMENT HAS NOT YET BEEN ORGANIZED AND CONSEQUENTLY IT WILL STILL BE SOME TIME BEFORE A STABILIZATION PROGRAM CAN BE IMPLEMENTED. WITHOUT SUCH A PROGRAM, THE EXPIRATION OF THE PRIOR DEPOSIT SCHEME WOULD CAUSE A SHARP INCREASE IN DOMESTIC LIQUIDITY AND DEMAND. THIS WOULD ACCELERATE PRICE INFLATION AND CAUSE THE LIRA TO DEPRECIATE FURTHER. THUS, THE EXTENSION IS NECESSARY TO MAINTAIN THE RETURN TO DOMESTIC ECONOMIC EQUILIBRIUM.

4. INCIDENTALLY, WE ARE RELIABLY INFORMED THAT BOTH GERMAN AND FRENCH GOVERNMENTS HAVE URGED COMMISSION TO SEEK EXCLUSION FOR BEEF, ARGUING THAT GREATLY INCREASED SLAUGHTER RATE AS RESULT OF DROUGHT REQUIRES ADDITIONAL MARKET AND THAT ADDITIONAL BEEF IMPORTS WOULD HELP ITALIAN SITUATION. COMMISSION REJECTED THIS VIEW. HINTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: IMPORTS, BALANCE OF PAYMENTS, REGIONAL ORGANIZATIONS, COMMITTEE MEETINGS, TRADE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ECBRU07016
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760273-0536
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760756/aaaabxey.tel
Line Count: 85
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 ROME 11379, 76 EC BRUSSELS 6906
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 31 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 MAR 2004 by greeneet>; APPROVED <31 MAR 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC COMMISSION AGREES IN PRINCIPLE TO EXTEND ITALIAN PRIOR DEPOSIT SCHEME
TAGS: EFIN, ETRD, IT, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006